THE DIRECTOR OF CENTRAL INTELLIGENCE

Office of the Director

13 November 1974

PAPERS FOR THE PRESIDENT'S TRIP TO VLADIVOSTOK

These papers fall into three groups.

--Maps and data on the Vladivostok area.

--Short resumes on current Soviet policy toward [redacted] China, toward the Koreas [redacted] plus a summary of the Siberian development projects.

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--Three background papers on Soviet leadership politics, on the political role of the Soviet military, and on the workings of the Soviet economy.

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VLADIVOSTOK

Vladivostok (the name means "ruler of the east") is the largest and most important port city in the Soviet Far East. It is located on Golden Horn Bay at the southern tip of the hilly, wooded Murav'yev-Amurskiy Peninsula which extends into the Sea of Japan. Direct access to the Pacific Ocean is denied by Sakhalin and the Japanese Islands.

The city is only 70 nautical miles northeast of the USSR -- China -- North Korean border junction. For this reason, as well as its strategic role, the city has been closed to non-communist foreign visitors for a number of years. Vladivostok is the headquarters of the Soviet Pacific Fleet, and subordinate headquarters and naval facilities are located here and in adjacent bay areas. The city is also a major commercial port.

Vladivostok's location on a sheltered bay, its terraced residential sectors, and its general orientation to the sea have moved some to call it the "San Francisco" of the Soviet Far East. Uniforms and sailors' garb are a common street sight.

A 1959 Moscow directive launched a major physical transformation of Vladivostok that is still going on. Former open areas are filling up and apartment blocks are replacing sections formerly occupied by old single-family cottages. Construction also includes highways, cultural and educational facilities, hotels, and light industries. A major development is the establishment of the Far Eastern Scientific Center in the northern coastal suburbs about 15 kilometers from the town center. It includes the headquarters of the Far East Branch of the Siberian section of the USSR Academy of Sciences. Other institutes now housed in the city, such as that for oceanographic research, will be moved to the Science Center as facilities become available.

Shipbuilding and repair are major industries. Enterprises servicing the navy and commercial and fishing fleets also are significant employers. Other industries, such as metal working enterprises, support local requirements for precast construction materials plants and consumer goods enterprises.

Founded in 1860 as a military outpost, Vladivostok rapidly developed into a significant commercial port as well, and in 1935 became the capital of Primorskiy Kray. The city has a population of half a million, mostly Great Russians.

In 1880 the arrival of a steamship from Odessa inaugurated scheduled service between Vladivostok and the Black Sea. Passenger and freight service has since expanded to Pacific and Arctic coastal cities. Construction of the eastern end of the Trans-Siberian railroad began in 1891, but an all-Russian route was not completed until 1914. Vladivostok was the only port open for shipping allied material to European Russia during World War I, and in World War II it again played a major transshipment role for war material and foodstuffs destined for Soviet military forces.

Associations With the US

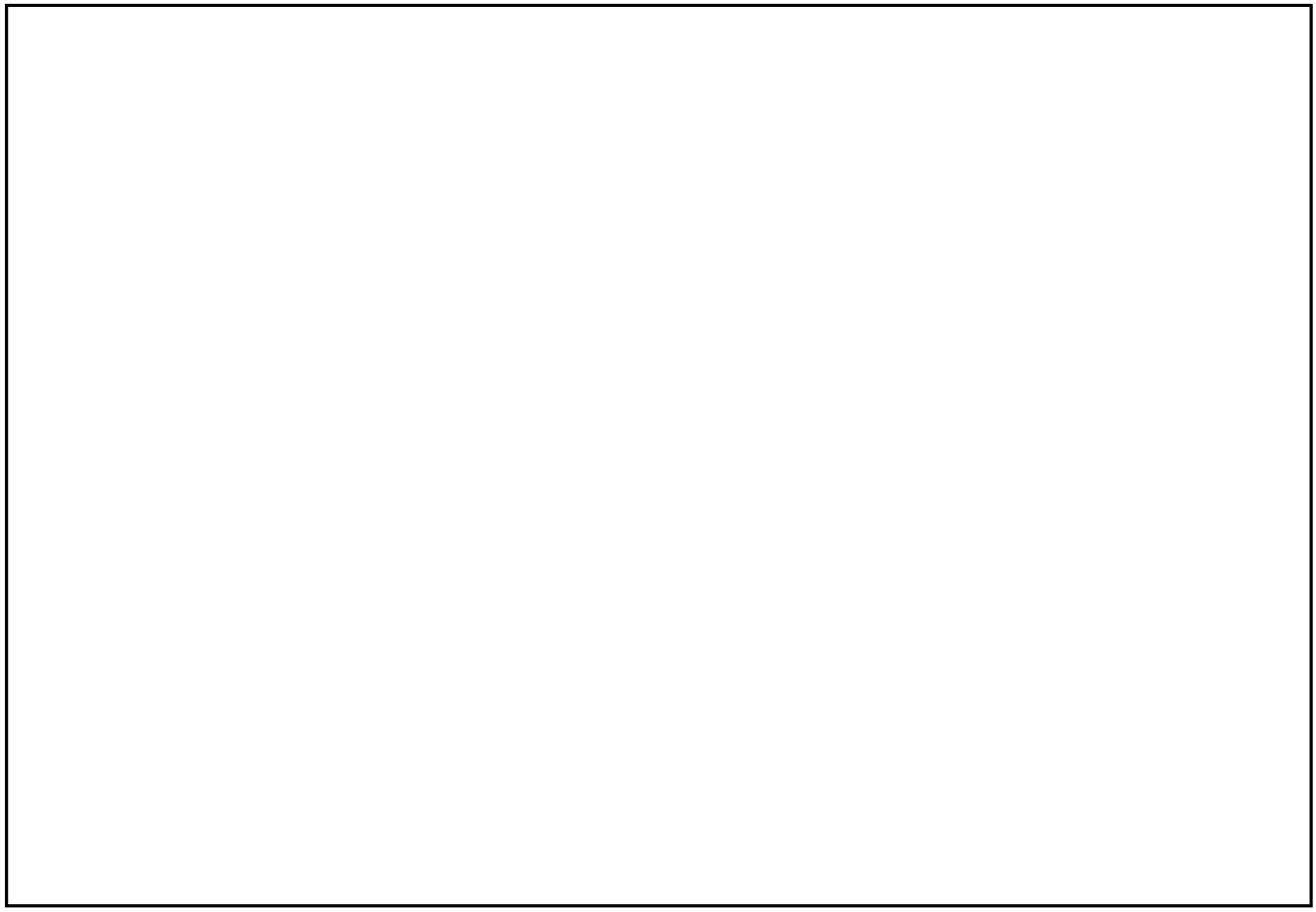
Vladivostok was occupied by allied forces during the "intervention period" of the Bolshevik Revolution, 1918-1922. The United States landed about 7,000 troops in August 1918; these were withdrawn by April 1920. Their role was primarily to protect and maintain lines of communication -- the Trans-Siberian railroad. The Japanese intervention was more serious; Japanese troops were in the city from April 1918 until late 1922 and used it as the base for penetrations deep into Siberia.

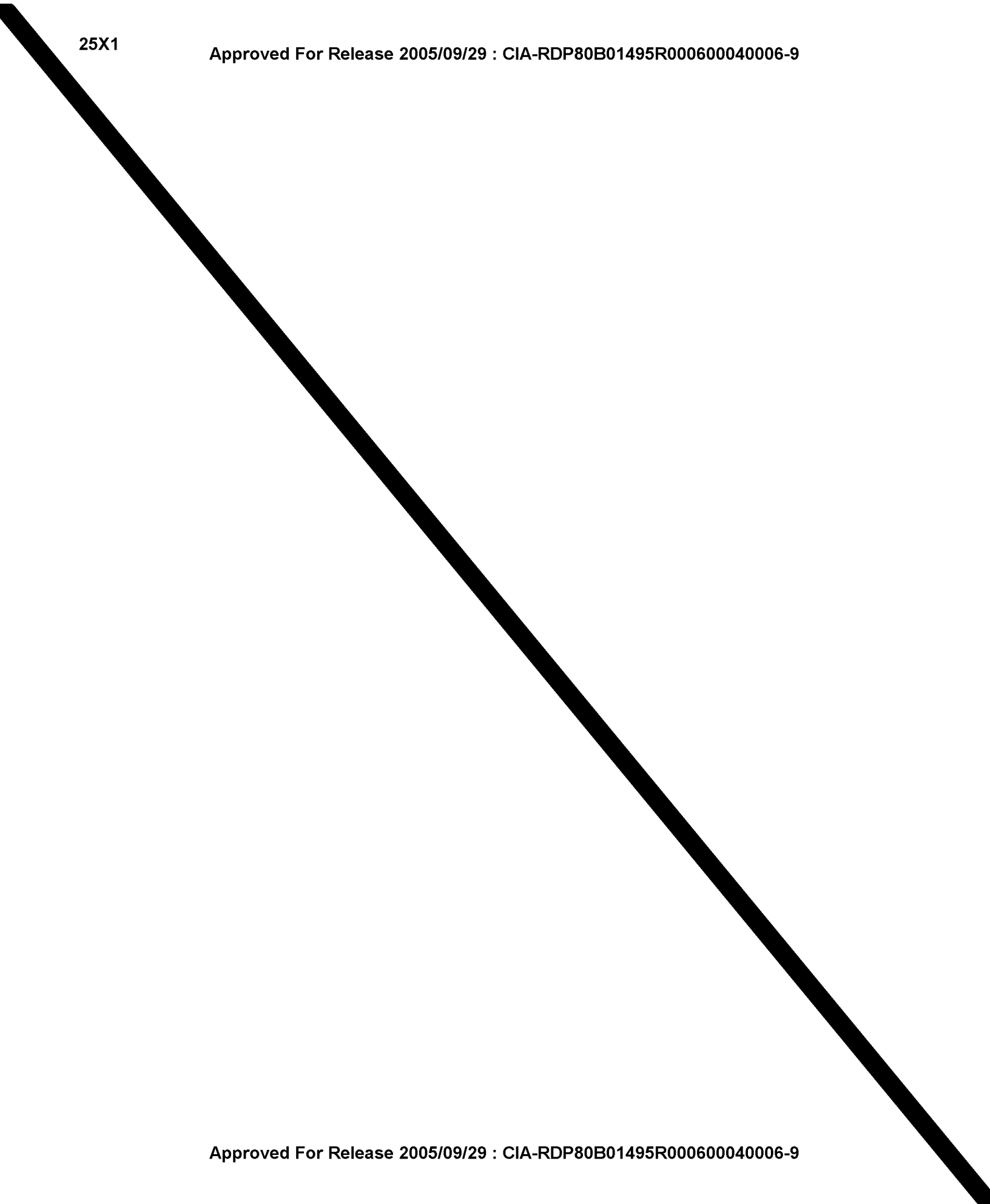
Under the Lend-Lease master agreement, more than 940 Soviet and Soviet-leased ships cleared American west coast ports for Vladivostok. Between July 1943 and September 1945, about 7 million tons of critical military items, industrial goods, and foodstuffs were funnelled through the harbor, some destined for Soviet troops in Manchuria fighting the Japanese.

The "Cold War" period left its imprint. A monument in Zharikovsk Garden on Lenin Street marks the common grave of 15 passengers and 6 crewmen of a Soviet aircraft allegedly shot down on 27 July 1953 by US aircraft.

Weather

Relatively pleasant, although cold, weather is highly probable during late November. Clear skies and light northerly winds generally prevail. Topcoast temperatures are characteristic, with daytime highs about 40° F and nightime lows about 25° F. Landfast ice formation is probable in protected bays. Gale force winds are the exception at this time of year, and any precipitation is likely to be a brief rain shower. Visibility is generally good as fogs are rare and industrial smoke is light. 25X1





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USSR: THE SIBERIAN PROJECTS

Large-scale investment in Siberia is a major element in the Soviet 15-year plan (1975-1990) now on the drawing board. Much of Soviet hopes for future economic growth rest on the exploitation of Siberia's abundant resources, and Brezhnev takes a particular interest in the program. The Siberian projects also have major foreign trade implications, in terms of meeting Soviet export commitments to Eastern Europe and generating output that can be sold to hard-currency countries.

Siberian projects already approved--a few with work actually under way--involve about $3.5 billion in foreign investment, almost all Japanese or West German. Moscow is also actively seeking foreign investment over the next five to ten years in projects still under discussion whose value could exceed $10 billion. The US share might be two-thirds. This is a level of capital and high-quality capital goods for which Moscow actively seeks foreign assistance. Foreign investment on this scale represents a significant policy departure from traditional Soviet autarky. Additional challenges, for which foreign technology is important, are posed by the location of many of the richest Siberian deposits in remote areas and severe climate. (Other, sizeable, non-Siberian foreign investment projects are also under negotiation, of course.)

A. Energy Projects

1. Yakutsk Natural Gas

In 1973 the USSR signed a general agreement with US and Japanese firms to develop natural gas deposits in the Yakutsk region in eastern Siberia. El Paso Natural Gas and Tokyo Gas have agreed on joint participation in the exploratory phase.

The project entails the construction of a 1,200-mile pipeline from Vilyuysk to Nakhodka on the Pacific Coast, where facilities to liquefy and export the gas would be built. Japan and the United States would each receive 1 billion cubic feet per day (cf/d) of liquefied natural gas (LNG)--less than 2% of US consumption--over a 20-year period beginning about 1985. Roughly $3 billion in Western plant and equipment would be supplied by the US and Japan and financed by long-term credits.

It is not clear that Yakutsk's reserves are sufficient to justify such a large investment; three to five years of exploration will be needed to verify the reserves claimed by the USSR. The Soviets are asking for $200 million in US and Japanese credits to support this exploration. The Japanese have agreed to finance half this amount, contingent on the availability of a matching amount from the US Eximbank.

2. North Star LNG Project

A consortium of three US companies--Tenneco, Texas Eastern, and Brown and Root--is considering a cooperative venture with the USSR to import 2 billion cf/d of LNG over a 25-year period for US east coast markets. The gas would come from the large Urengoy deposit in Western Siberia via a pipeline to an export terminal near Murmansk. Difficulties over the pricing of the gas and the availability of Western financing have hindered the negotiations. The project depends on Eximbank credits and guarantees to cover Soviet purchases of up to $2.5 billion in Western equipment. Even if an agreement is reached soon, deliveries would not begin until the early 1980s.

3. Natural Gas to Western Europe

In recent years the USSR has contracted to deliver natural gas to Western Europe. By 1980 the volume will reach 2 billion cf/d. Although the gas is now being piped

from Central Asian and Ukrainian gas fields, future deliveries may come from the Urengoy fields--the intended source of the North Star deliveries. An existing pipeline system probably will be extended eastward to Urengoy as additional gas deposits are developed and, in the west, tied into the gas pipeline network now connecting Eastern and Western Europe.

Western Europe has supplied much of the line pipe and related equipment for this and other natural gas pipelines, with repayments to come in future gas deliveries. To date the USSR has contracted for $2 billion in pipe and pipeline equipment from the West. By 1980, annual Soviet earnings from natural gas sold in Western Europe should exceed $8 billion.

4. Sakhalin Offshore Exploration

The Soviets are nearing final agreement with a Gulf Oil-Japanese consortium to explore offshore oil and natural gas deposts on the Sakhalin continental shelf. Because the other parties regard Gulf's expertise as crucial to the project, progress has been stalled by Gulf's refusal to join in what it regarded as an unprofitable operation. Gulf subsequently decided to participate in return for Soviet assurances that the company would be given sole rights to explore other offshore areas surrounding Sakhalin under a more lucrative arrangement. Total offshore reserves on the Sakhalin continental shelf could equal those claimed for Alaska's Prudhoe Bay. Western investment required to explore and develop one or two major offshore fields might well exceed $1 billion.

5. Tyumen Oil Project

For several years the USSR and Japan have been discussing construction of a 4,200 mile pipeline from the Tyumen oil fields in West Siberia to Nakhodka. In return for financing $1 billion in Soviet imports of large diameter pipe and pipeline equipment, Japan was to receive up to 800,000 barrels per day (b/d) of oil over a 20-year period. In April 1974, however, the Soviets told the Japanese that they had

scrapped plans to build a pipeline in favor of a second trans-Siberian rail line, that they could only supply the Japanese a maximum of 500,000 b/d, and that they wanted $3 billion in long-term credits for equipment to be used in building the railroad. The Japanese refused because of economic reasons (smaller deliveries, larger investment, and a longer construction period) and fears that China would oppose Japanese participation in building a strategic railroad in the Far East. Some Japanese officials profess to believe, on the basis of very recent developments, that Moscow may tender a revised proposal. Rail transport of oil out of Tyumen is so unrealistically expensive, however, that it seems clear the Soviets want the railroad far more than the oil.

6. Chul'man Coal Deposits

Last June the USSR signed an agreement with a Japanese consortium to develop coking coal deposits near Chul'man. Japan's Eximbank will put up $450 million in long-term credits to finance Soviet purchases of coal mining equipment, railway equipment, and consumer goods. In return, the USSR will supply the Japanese with 104 million tons of coal during 1979-99, about 5% of projected Japanese needs. If coal prices stay up, Soviet earnings from the project could exceed the cost of foreign credits by several billion dollars. US firms may be asked to supply some of the advanced equipment.

B. Infrastructure

1. Baykal-Amur Railroad

Moscow has decided to build a second trans-Siberian railroad running 100 to 500 miles north of the existing line. Some segments at the eastern and western ends of the planned Baykal-Amur Magistral (BAM) already have gone into operation. The BAM, running through difficult terrain, will provide access to important Siberian mineral deposits--

including coal, copper, iron ore, and gold--and open up new lands for development. It will be less vulnerable than the existing trans-Siberian line, which at some locations is within ten miles of the Chinese border. To help in building the new line, the USSR last month ordered $400 million in trucks from West Germany and $100 million in crawler tractors from International Harvester. The latter order was the largest in that company's history.

2. Port Development Project

In late 1970 the USSR signed an agreement with a consortium of Japanese firms to jointly develop port facilities at Vostochnyy, on Vrangel Bay 65 miles east of Vladivostok. The Japanese are providing $80 million in engineering services and equipment. Soviet purchases are being financed by long-term Japanese Eximbank credits. When completed--possibly by 1975--the port will be the largest in the Soviet Far East. The coal and wood chip handling facilities under construction at the port should be fully employed in handling exports resulting from Soviet-Japanese resource projects. A large modern container facility also has been built to support the recently inaugurated Siberian "land-bridge" for Japanese-European container traffic.

C. Metals

1. Aluminum Processing Facilities

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Because Siberia's energy resources are plentiful, the USSR wants to locate energy-intensive industries there--and to attract foreign cooperation.

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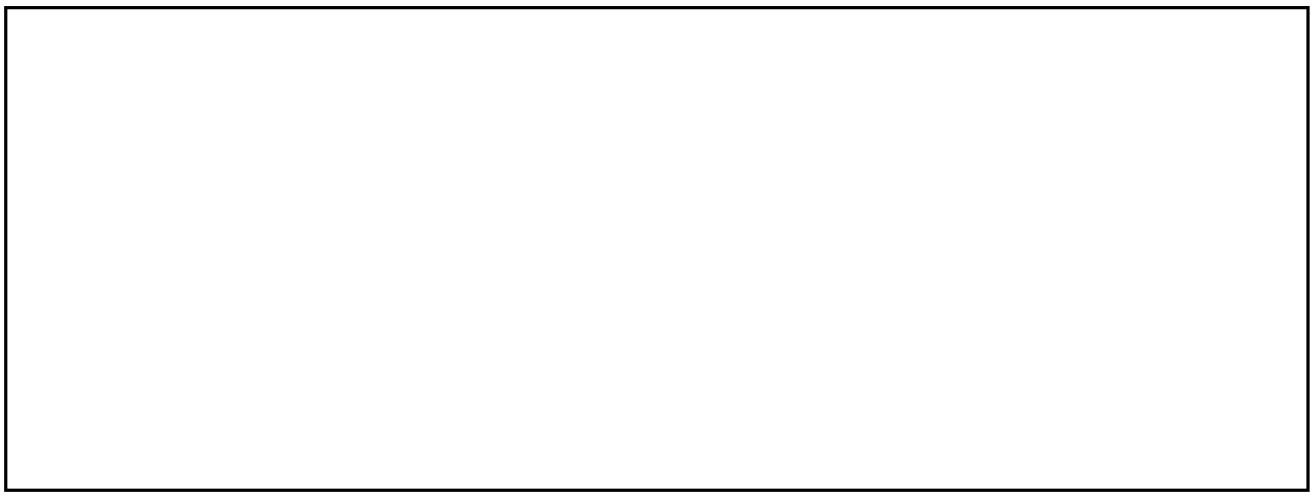


2. Other Metals

The USSR has negotiated for nearly a decade with Western firms over the development of the rich Udokan copper deposits east of Lake Baykal. Western investment has been deterred in part by the lack of railroads and other supporting facilities, but construction of the new Trans-Siberian railroad should spur renewed interest in Udokan copper. Soviet officials have announced that other mineral deposits being readied for development include copper and nickel deposits at Nizhneangarsk and polymetalic deposits elsewhere. The new railroad will also provide access to large iron ore deposits in East Siberia.

D. Forestry Projects

1. Timber Projects

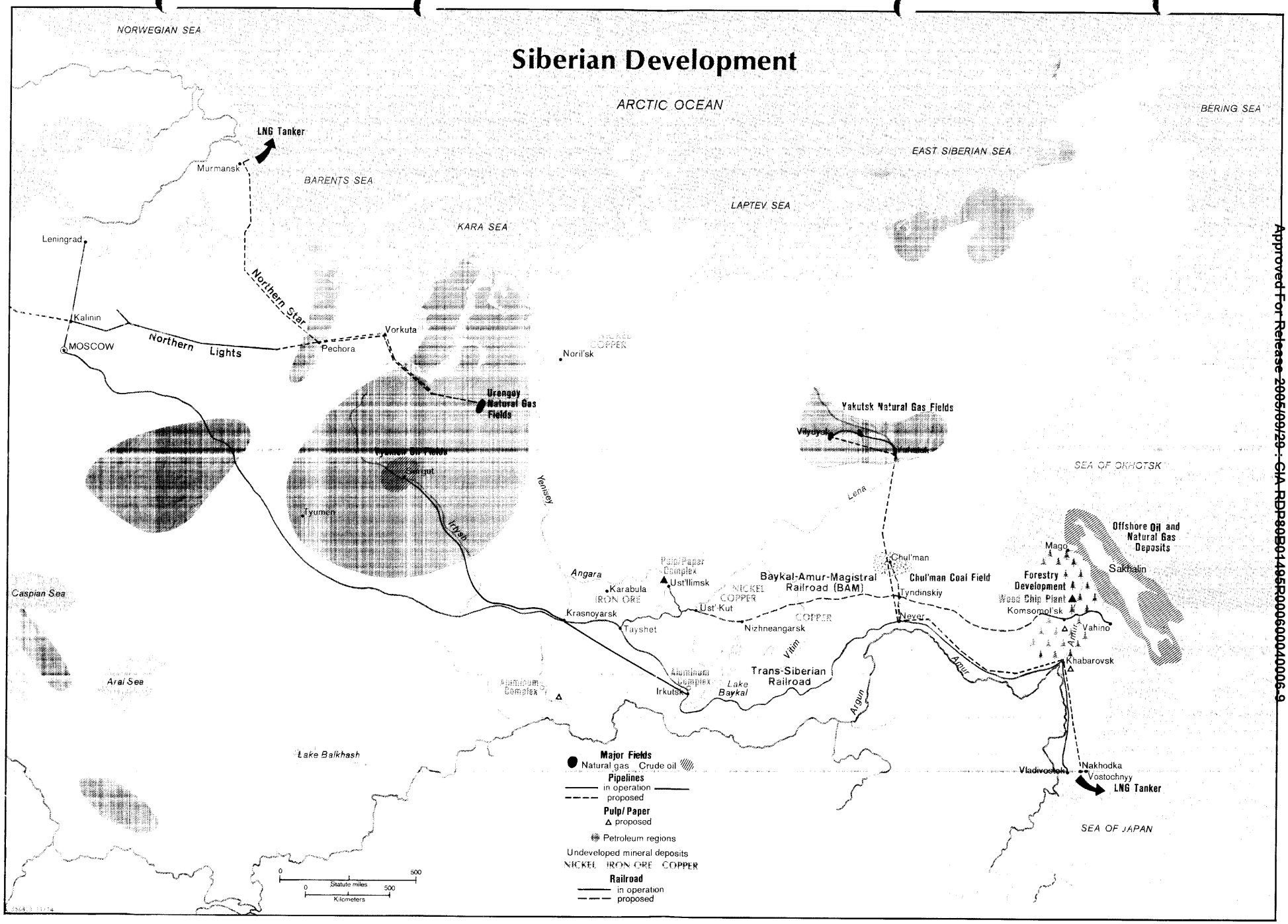
The first Siberian project involving foreign participation, begun in 1968, exploited timber resources along the Amur River in the Soviet Far East. It was successfully completed, and last July the USSR concluded a much larger contract with the same Japanese companies.

The USSR in 1975-78 will import, on Japanese Eximbank credits, $550 million in timber cutting and processing equipment, ships, and consumer goods. Soviet earnings from saw logs and other timber products could be double the value of the Japanese credits. The two countries are also cooperating in the building of a wood-chip plant in the Soviet Far East, but progress has been slow.

2. Pulp/Paper Plants

The USSR is building a major wood processing center at Ust' Ilimsk on the Angara River. The center will process wood pulp and lumber, and factories to produce chip boards will also be built. It is a Bloc-wide project; Romania, Poland, and East Germany are providing large amounts of equipment in return for long-term deliveries of wood pulp.

The Soviets and Japanese are negotiating over the construction of another pulp/paper plant on the Yenisey River, west of Lake Baykal. Although US and West German firms have shown an interest, Japanese officials say they prefer a bilateral arrangement. The Japanese seem to be more interested in very recent Soviet proposals for two other plants on the Amur River in the Soviet Far East, which would require $1 billion in Japanese investment.



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THE SINO-SOVIET IMPASSE

China is Brezhnev's most intractable problem, and will be very much on his mind during the Vladivostok Summit, even though he may not speak of China directly. The Sino-Soviet dispute today colors the thinking of the Soviet leaders on virtually all foreign policy issues, not the least that of relations with the United States.

What the Quarrel is About

For two decades the Soviets have seen their quarrel with China steadily expand, despite periodic efforts to find ground for reconciliation.

--Originally, this was mainly a dispute over which of the two Communist great powers should dominate the Communist world.

--This became transformed into a struggle over whether the policies of what was then the Sino-Soviet alliance should be shaped to serve Chinese or Soviet national interests.

--As grievances accumulated, the rivalry became charged more and more with personal, racial, and national animosity, leading to a gradual precautionary buildup of strong Soviet forces along the border, and then to military clashes.

--At the same time, the political rivalry between the two powers has gradually broadened into competition for influence in every world arena.

Today, wherever the Soviets turn--in dealing with Japan, the US, Western Europe, or the Third World, in the UN or the Indian Ocean--they find the Chinese leadership attempting to obstruct Soviet policy. In practice, China is not strong enough to organize serious opposition to Soviet policy in areas outside Asia. The Soviets realize this, but nevertheless emphasize that the present Chinese regime is their most fanatical, single-minded adversary. The decisive fact for Soviet policymakers is that, while Washington under several Presidents has shown willingness to improve relations with Moscow, Peking under Mao Tse-tung has adamantly refused to do so.

The Core Problem: The Border

The most sensitive issue of the protracted Sino-Soviet impasse is their 4,000-mile border.

--Only about 250 miles north of the Vladivostok summit meeting place is the island of Damansky (Chen Pao) in the Ussuri river, the eastern frontier between Chinese Manchuria and the Soviet Far East.

--In March 1969, this island was the scene of two bloody firefights between Chinese and Soviet border guards, launching six months of similar incidents elsewhere along the frontier and mounting tension in both countries.

--Alarmed over their inability to read Chinese intentions, and worried that Peking might try to convert the border into a continual "running sore," the Soviets that summer floated threats of drastic punitive military action. This evidently impressed the Chinese, and they ceased aggressive border patrolling and opened border negotiations with Moscow in the fall of 1969.

--But in five years of intermittent talks since then, the Soviets have met only frustration and stalemate.

The heart of the Soviet negotiating dilemma has been Peking's insistence that thousands of square kilometers long held by Moscow are "in dispute," and China's unwavering demand that the USSR pull its forces out of all this territory before a final border settlement can be reached.

--The Soviets have no intention of making such a pullback.

--They may be willing to make some limited concessions as part of a general settlement, but there are some Chinese claims to which Moscow will never yield.

--Chimnaya Island (Hei-hsia-tzu), at the junction of the Amur and Ussuri, is the most essential to Soviet national interests. The large city and military center of Khabarovsk lies just across the river, and the vital Trans-Siberian railroad runs through Khabarovsk.

Soviet Conclusions

The Soviets are convinced that Mao knows all this, but that he maintains Chinese demands unaltered in order to preserve the impasse--and ensure continued Sino-Soviet hostility. The Chinese expelled certain Soviet diplomats in Peking last January, and refused to release the crew of a military helicopter which strayed across the border in March.

The Chinese recently published for the first time the unaltered demand they have been insisting upon privately in five years of border talks--a mutual non-aggression pledge linked to the total Soviet troop pullback Peking has wanted. The Soviets will regard this as a ploy intended to create an impression of Chinese reasonableness. The Soviets expect no real improvement while Mao lives.

The US-Soviet-Chinese Triangle

This Chinese conundrum has been a constant worry for the Soviet leaders in their calculations about dealing with the United States.

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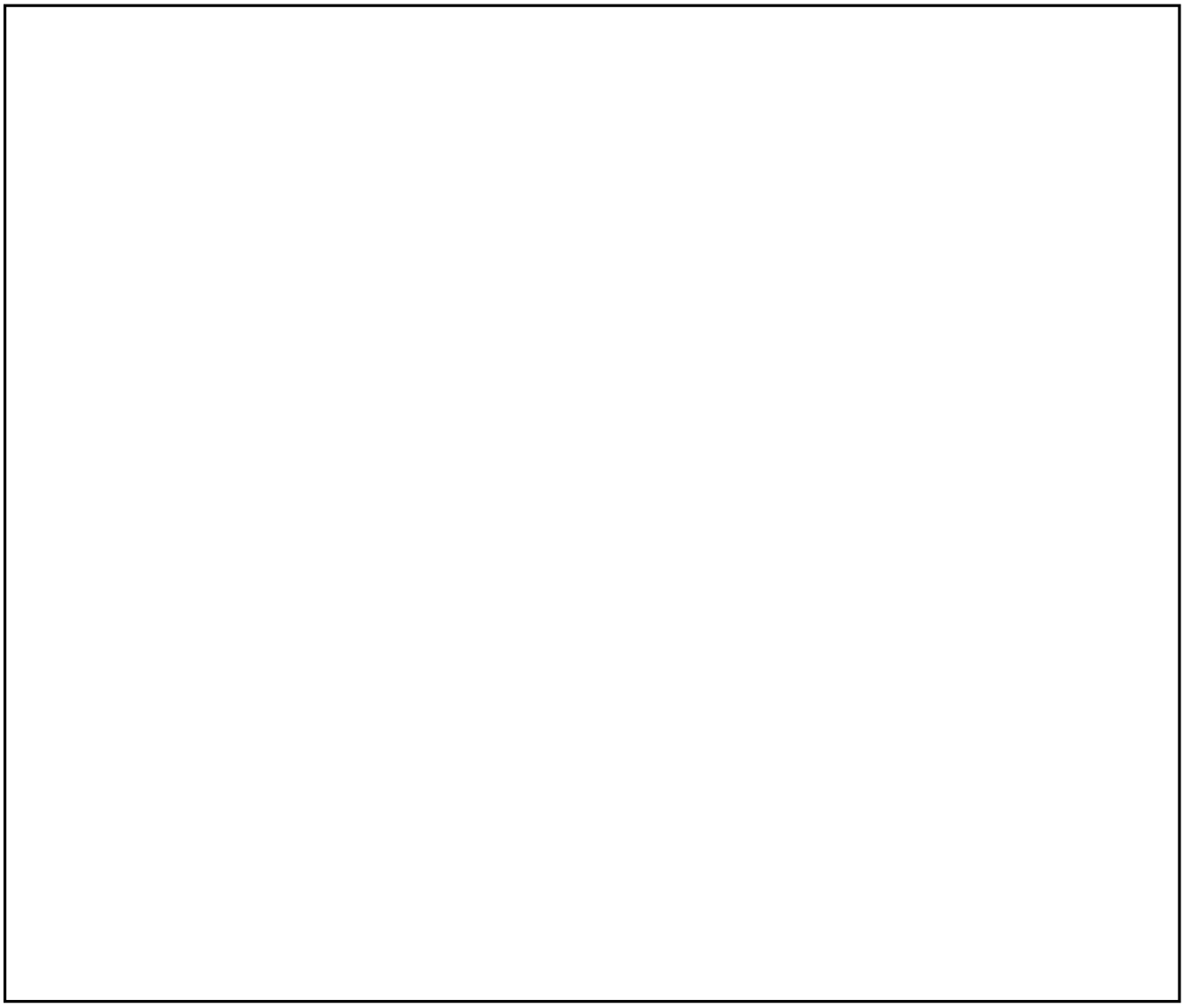
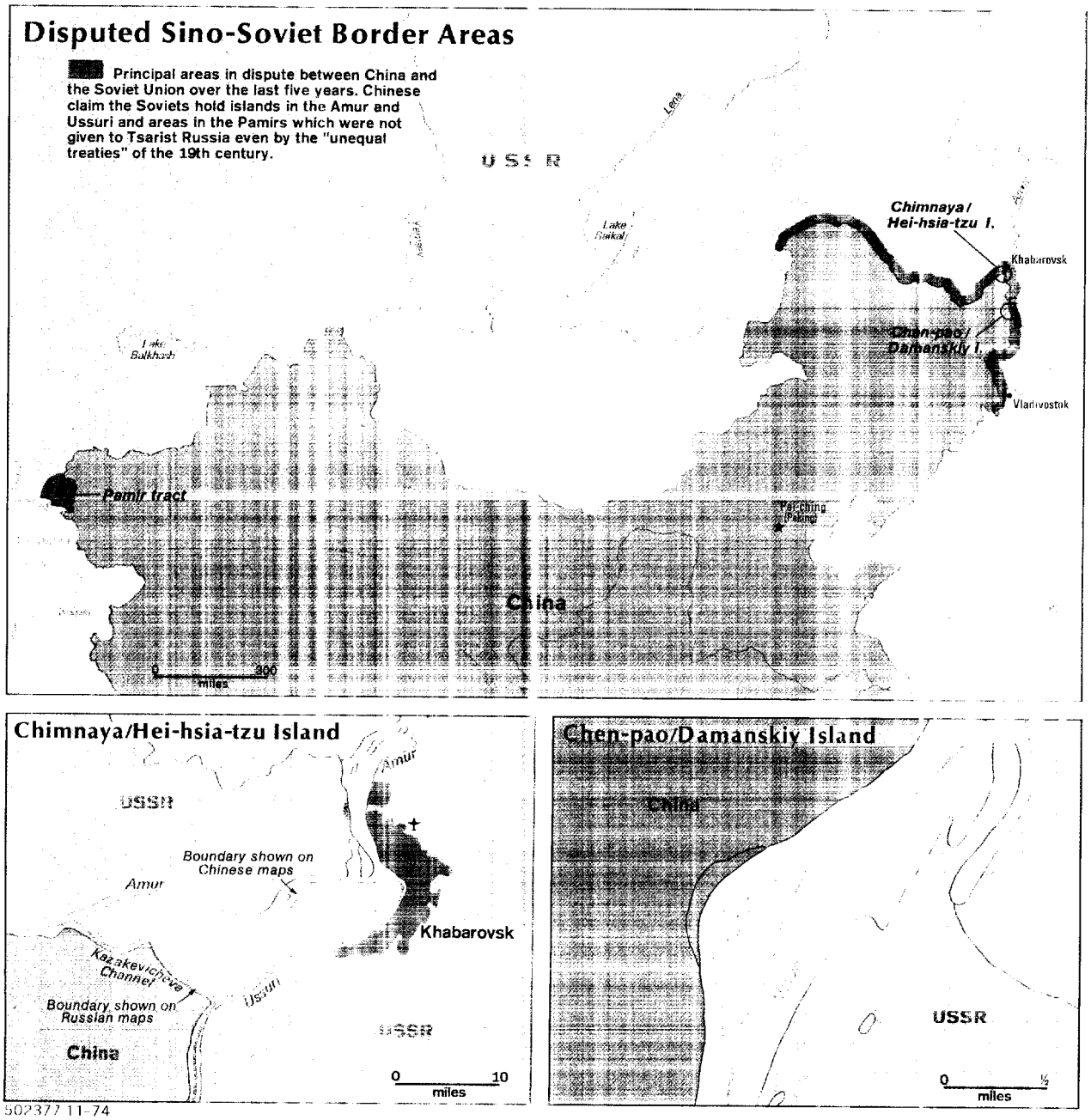


The Longer Run

The Soviets have not, however, given up hope of improving their position in the triangle by some day securing a breakthrough in their own relations with Peking. To this end the Soviets have in recent years sought Chinese

consent to a major improvement in economic relations, and have repeatedly attempted to obtain a Sino-Soviet summit meeting. The Chinese under Mao have rejected all these Soviet requests, but after Mao's death Moscow is likely to offer such a package again to his heirs.

Above all, the Soviets hope that a post-Mao leadership will be willing to moderate Chinese terms for a border settlement. Although Brezhnev recently told an East European leader that he felt confident that Mao's successors would show an improved attitude toward the USSR, a recently acquired Soviet document indicates that Moscow simply does not know whether Mao's passing will actually move China in this direction. In the meantime, for tactical purposes Moscow has instructed all Soviets abroad to create the impression, in talks with Western representatives, that the USSR expects such a post-Mao improvement.



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SOVIET POLICY IN KOREA

Soviet interest in the Korean peninsula stems from:

--its geographic proximity to China, Japan, and the Soviet Union;

--and historical circumstances that have made North Korea an arena for Soviet-Chinese rivalry.

Moscow's efforts to strengthen its influence in North Korea at China's expense have not been particularly successful, however, because:

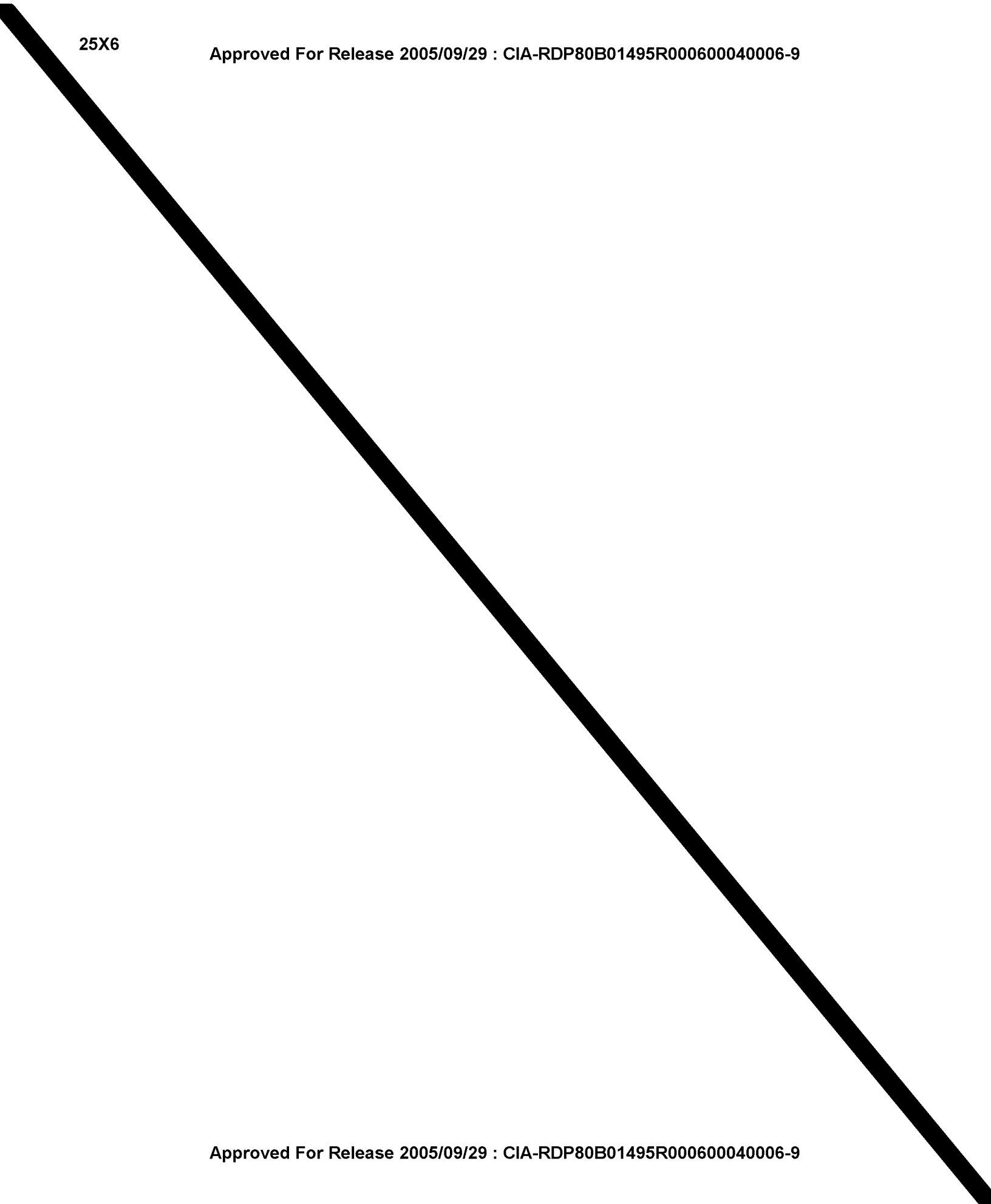
--the Chinese have been active themselves;

--Pyongyang has been able to use Sino-Soviet rivalry to maintain a high degree of independence.

To compete with Peking, Moscow continues to give military aid to North Korea and political support in the UN and elsewhere.

--on the military side, aid has included high-performance aircraft, tanks, guided missile boats, and short-range tactical missiles.

--politically, Moscow renders pro forma support to Pyongyang on the issue of Korean unification, although the Soviets have privately made it clear that they are not sympathetic to some of Pyongyang's behavior and rhetoric. The Soviets have been anxious that the Korean question in the UN not seriously complicate their relationship with the US.



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THE SOVIET PROPOSAL FOR ASIAN COLLECTIVE SECURITY

During the course of the summit, Brezhnev may conceivably raise his proposal to create an Asian collective security system.

The Soviets have touted this idea for five years, but have remained purposely vague about exactly what it means. Among the "principles" they have cited for inclusion are non-use of force, non-interference in the internal affairs of other states, and the inviolability of frontiers. Their aims in pushing this scheme are:

--to embarrass and contain China;

--to sanction a Soviet role in the settlement of Asian disputes;

--to promote the atmosphere of detente.

The Asian states are aware of these objectives and chary of lending themselves to Soviet purposes. A number of them with unresolved border problems also find difficulty with the principle of "inviolability of frontiers." This is particularly unacceptable to China and Japan, which have territorial disputes with the USSR.

The Soviets have no illusions that their collective security idea will become a reality soon. So far they have picked up only a few endorsements, from Mongolia, Iran and Afghanistan. But they find it useful to keep this proposal alive as a symbol of their benign intentions and a reminder that they are a force to be reckoned with in Asia.

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THE SOVIET MILITARY ESTABLISHMENT

The Soviet military establishment is quite a different animal from its US counterpart, and it fits into the larger society in a different way as well.

In the first place, Soviet society is much more free of conflicts between military and civilian viewpoints than is American society. Given Russia's long history of invasions and enormous civilian suffering, the population accepts with little question the need for a strong defense. The notion of an external threat is persuasive, with the Chinese filling any vacuum left by the warming of relations with the West. Patriotism remains a widely honored value in this society, which accepts without demur such practices as substantial pre-military training in high school and the draft.

In the second place, the Soviet military is in important respects a much more self-contained institution than other armed forces. Short of issues important enough to engage the Politburo, civilians do not share in the running of the defense establishment. In the Soviet equivalent of the Pentagon, practically everyone is a uniformed member of the armed forces. This creates a formidable continuity, with all its virtues and vices. One of these vices--resistance to change--provoked Khrushchev into repeated forays into the field of doctrine and weapons selection. The results were mixed, and the Brezhnev regime has not repeated the effort. There is some reason to believe that, when the Minister of Defense died in 1967, the Politburo did initially consider breaking precedent by appointing a civilian successor, but finally decided to avoid bad feeling in the high command. At any rate, the job went to Marshal Grechko, who in the American system would have become Chairman of the Joint Chiefs but, in the Soviet system, is Secretary Schlesinger's opposite number.

The Military and the Politicians

This strong acceptance of the principle of professionalism, compounded by the Soviet practice of long tours in key positions, creates a real danger that the military will become a separate and even dominant force in the political arena. The Communist party is acutely aware of this and has devised pervasive control mechanisms. The three most prominent ones are:

--a separate network of political officers who, while members of the armed forces, are responsible for insuring loyalty and morale throughout the forces; they have their own chain of command leading into the Central Committee of the Party.

--a directorate of the KGB devoted to the same tasks.

--the requirement that any officer who wishes to advance must join and be active in the party; practically all officers do join.

While these systems work effectively, the conspiratorial traditions of Soviet politics are so strong that the Party has remained highly nervous about Bonapartist tendencies in the military. As a case in point, Khrushchev in 1957 used Marshal Zhukov to defeat his political rivals, bringing him into the Politburo as part of the deal, but four months later Zhukov was fired.

It is important to note that these control mechanisms are designed to insure political loyalty, not to join in or second-guess military judgments on professional matters. Of course, the Ministry of Defense does not have a free hand in setting its own budget or determining its own force structure. But, in contrast to the American military establishment, it has a virtual monopoly on the development of a

strategic doctrine and on military data and on the expertise needed to analyze it. It does not have to contend with a Congress, or with competing bureaucracies--such as State, ACDA, and CIA--or analytic centers--such as RAND--or private strategic analysts, all of them demanding that the professional military prove its case, offering rival analyses, criticizing official doctrine, and in general assuring an unending debate over national defense policy. Such independent bodies do not exist in the USSR, with sufficient power or facts to work effectively.

To be sure, this somewhat overstates the case. The Politburo itself pays a good deal of attention to military matters, and Brezhnev and other political leaders saw a good deal of combat, albeit as political officers, in the Second World War. The industrial administrators who oversee defense production have acquired strategic expertise in the course of their work. Both these elites are represented at the Defense Council, which is a sort of Politburo subcommittee charged with integrating Soviet policy in the fields of defense, economics, foreign policy, and more recently arms control. But in comparison to the US military, the Soviet military has almost no institutional competition in presenting to the political leadership its version of the Soviet-US strategic balance. As to overall policy, it can only recommend, but its recommendations carry a weight of professionalism which others cannot match.

In these circumstances, it is natural to expect that the military analysis which Brezhnev and his colleagues receive stresses worst-case possibilities, emphasizes US strengths, and serves to support military desires for continued high levels of funding. The military briefing on the strategic balance which the Soviets presented to former President Nixon last July bore this stamp. Perhaps Brezhnev is not entirely happy with this heavy dependence upon military analysis, but there is no evidence that he has established any alternative unit and provided it with the necessary highly classified data.

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Indeed, there is little in current Soviet policy which is offensive to military interests. Back in 1964, when Brezhnev and his colleagues ousted Khrushchev, they abandoned his habit of constantly interfering with the generals, publicly criticizing their

conservatism, and forcing unwanted innovations down their throats. The military budget has grown, slowly but without interruption, and all services have shared about equally in the benefits. The detente line pursued since about 1969 has not hurt the military, --it has been accompanied, for instance, by major new weapons programs. The military, which participates fully in SALT policymaking, professes itself satisfied with the 1972 arms accords. The military shares, for its own particular reasons, the Soviet interest in stimulating a greater flow of advanced technology into the USSR from the West. But it seems certain that on security matters--and particularly the negotiations for a SALT II accord--the military influence is both strong and on the conservative side.

The Soviet Military-Industrial Complex

Soviet military budgeteers have much different problems, and generally easier ones, than their American counterparts. There is no equivalent of the Congressional scrutiny to which the US Department of Defense must submit. There is, of course, the equivalent of executive scrutiny, at a general level in the Defense Council and in a more detailed fashion in the Military-Industrial Commission and in Gosplan. This commission brings together the heads of several ministries responsible for defense production and the planners of the Defense Ministry. It is chaired by L. V. Smirnov, who conducted the final negotiations on the SALT I accords at the 1972 summit.

These men are not indifferent to questions of cost and efficiency. They know that their betters in the Politburo are genuinely concerned to devote more resources to raising Soviet living standards. But they also know that the Politburo regards armed forces as much more than just an unwelcome necessity--that it attaches a high political value to a strong military posture. And the budgetary cost of total manpower is low--it takes only

31 percent of Soviet defense spending. The result is a stable bureaucratic environment in which defense spending grows steadily, at a somewhat slower pace than the economy as a whole, but free of the swings which characterize the military budgets of democratic countries.

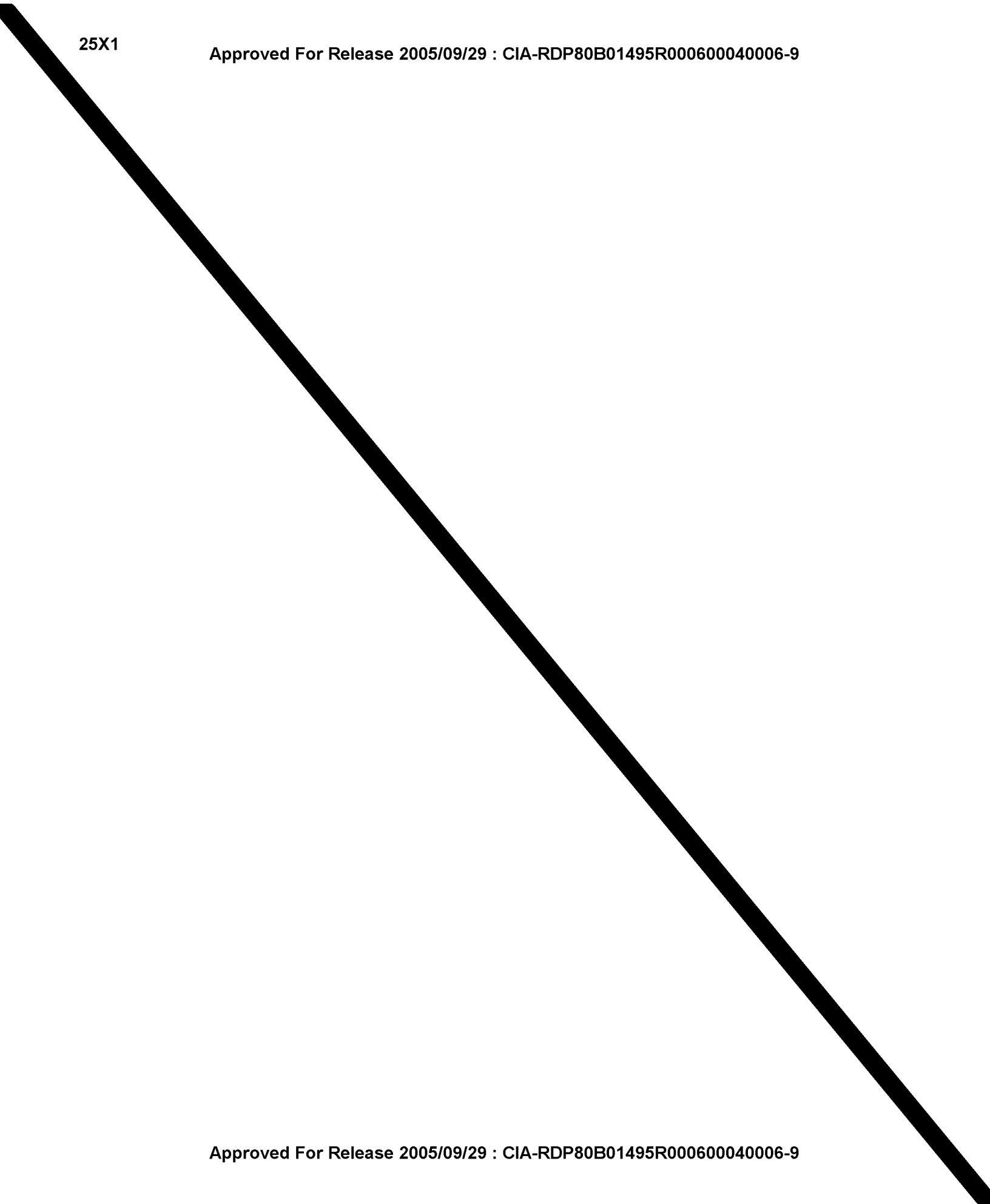
Soviet weapons designers are a breed apart. In the leaders' eyes, the heads of the major design teams are the repository of Soviet hopes for overcoming the US lead under which the USSR has so long labored. These chief designers are given a great deal of latitude and have enjoyed personal access to the leaders, first to Khruschev and then probably to Brezhnev. Frequently they are allowed to purse competing programs, and in some cases the military will buy and deploy the product of both contestants--thus reinforcing other tendencies in favor of quantity in Soviet military policy. Their bureaus are permanent government units, not private companies which can lose funds, personnel and expertise when contracts are completed. These establishments obviously have strong vested interests in developing new weapons technology.

The Organization of the Defense Ministry

The Ministry of Defense is set up in a different way from the US Department of Defense. The dominant element is the General Staff. Many of its officers are graduates of the General Staff's own Academy. The Soviet tradition resembles the old German General Staff, i.e., a unified organ rather than a joint representation of the several services. Its officers spend long years in specialized positions, in contrast to the US system of periodic rotation between line and staff responsibilities. Among Soviet military institutions, the General Staff alone has the access to both information on Soviet forces and foreign intelligence. It is the source of military staff work on arms control.

Instead of four combat services, the Soviet military establishment has five. The Soviet Navy contains a small element which is a counterpart to the US Marines. The Ground Forces' responsibilities are comparable to those of the US Army, except that it has no air defense or missile defense role. These are handled by the National Air Defense Force, which also controls interceptor aircraft. The Soviet Air Force provides tactical air and transport support to the Ground Forces and a bomber force, but has no strategic missiles. These are controlled by the Strategic Rocket Forces--except for SLBMs which, as in the US, are the Navy's.

There is considerable evidence of the normal kinds of interservice conflict and rivalry within the Soviet military. The Ground Forces have traditionally enjoyed preeminence, and although they are now yielding to the Strategic Rocket Forces, they continue to provide the greatest share of the top military leadership. Whereas Khrushchev exploited interservice competition to press his own military policies, the Brezhnev regime has tended to provide satisfaction to all important claimants under the rubric of "balanced forces."



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THE SOVIET ECONOMY IN PERSPECTIVE

The Soviet economy has grown since 1950 from about one-third to about one-half the size of the US economy. The USSR's basic strategy has been:

--to invest at high rates in heavy industry, fuels and power, and construction; at lower rates in consumer goods and agriculture;

--to emphasize modern, capital-intensive technology in the favored sectors while using old-fashioned, labor-intensive methods in the low priority sectors;

--to spend heavily on education and science in order to raise the technical skills of the population;

--to import advanced Western technology and equipment in exchange for raw materials.

Making and Implementing Economic Policy

This is a "command economy." Basic economic decisions are made by central administrative fiat rather than in the market place:

--The Politburo of the Communist Party makes the big economic decisions. In practice, because the system is so centralized, it ends up making a lot of little ones too.

--Given these guidelines, a huge bureaucracy--headed by the Council of Ministers--sets output goals, allocates manpower and materials, fixes wages and prices, and regulates incentives.

--Lower down, state-owned industrial facilities and collective farms struggle to translate the economic plans into action.

The Politburo--the highest Soviet policy-making body--acts much like the board of directors of an enormous conglomerate. As chairman of the board, Brezhnev presides over Politburo weekly meetings where periodic decisions on general economic priorities are reached by consensus. The Politburo decides--basically annually--on the division of resources between military and civilian use and the distribution of investment between industry and agriculture.

The Council of Ministers--the government's highest body--can be likened to a senior management team of the conglomerate. Kosygin, as Chairman of the Council, has final responsibility for setting the output of all major commodities, distributing resources, and ensuring that plans are fulfilled. The organization under the Council includes the State Planning Commission (Gosplan), more than 50 functional economic ministries (such as ferrous metallurgy, foreign trade, and agriculture), and a host of state committees and main administrations concerned with finance, prices, supply, and the like. The State Planning Commission is now working on an annual plan for 1975, the Tenth Five-Year Plan for 1976-80, and a new 15-year plan for 1976-90.

Each ministry oversees production by the plants and laboratories under its control. Most ministers and their deputies are senior executives, not policymakers. A minister's main job is to see that plans are fulfilled. He also deals with production and staffing, allocates funds for investment and R&D, and decides matters that would come before the department head of a giant Western corporation.

Each plant and laboratory has its own production, technical, and financial plans. The manager's main "success indicator" is whether or not he meets the production target.

Strengths

The Soviet economy has great crude strength, based on a wealth of natural resources, a sturdy labor force half again as large as that of the United States, rapidly growing industrial facilities, and a tough, hard-driving leadership. Growth has been maintained by the brute force method of allocating 30 percent of output to investment (compared with 18 percent in the United States) and by extracting as large a work force as possible out of the populace. The result has been a rapid increase in the output of machinery and materials, the maintenance of a formidable defense establishment, and even some gains in the long-neglected consumer sector.

These strengths of the Soviet "command economy" have made it largely immune to some major problems now plaguing the market economies of the West--double-digit inflation, international monetary crises, and the energy crunch.

--Because of tight central control, prices and wages are stable. Retail prices, with the exception of a few luxury items, have not risen since 1950. Wages have risen gradually as increased output permits gains in living standards.

--The Soviet drive for self-sufficiency has largely insulated the economy from disruptions in world trade and finance. Imports are equal to 3 percent of GNP, and only one-third of foreign trade is conducted with non-communist countries. Moreover, recent world trade problems have worked to the advantage of the Soviet Union. The rapid rise in world prices for major Soviet raw material exports and gold will turn the USSR's hard currency balance from deficit to a healthy surplus in 1974 and 1975.

--The USSR's vast reserves of mineral fuels are adequate to meet current needs and to support economic growth for many years.

Weaknesses

The Soviet leadership is aware of persistent problem areas threatening economic growth.

--Low productivity and the declining efficiency of investment. Despite a volume of investment per worker nearly equal to US levels in recent years, labor productivity in Soviet industry is only about half the US level. This is particularly serious since additions of men and equipment on the scale of the 1950s are no longer possible, and productivity gains must be the future source of growth. An added difficulty is the gradual exhaustion of easily accessible natural resources and the rising cost of exploiting new resources, many located in remote and frozen areas of Siberia.

--Technology gap. Although the latest technology is employed in some areas--particularly in the defense and space industries--technology in the civilian economy generally lags far behind that of the West. The Soviet system is particularly ineffective in moving new ideas and products from the research and development stage into full assembly-line production. Moreover, Western equipment frequently is not as productive in a Soviet setting as it is on native ground. Even as the USSR is struggling to catch up, the United States, Western Europe, and Japan are forging ahead with still newer technology.

--Rising consumer expectations. Though well fed and clothed compared with past generations, Soviet consumers are increasingly aware of the disparity between Soviet and Western living standards. In 1973 the average Soviet citizen consumed only about one-third the goods and services of a US consumer. Consumer grievances are especially acute as to housing, long queues, the poor quality of durables, and the indifferent quality of repair and other services.

--Inefficient agriculture. Nearly a third of the labor force is still employed on the farm; equipment is badly operated and maintained; and the cost of producing grain and meat is far above world market prices. Agricultural labor is only about 10 percent as productive in the USSR as in the United States despite a decade of much larger investments in Soviet agriculture.

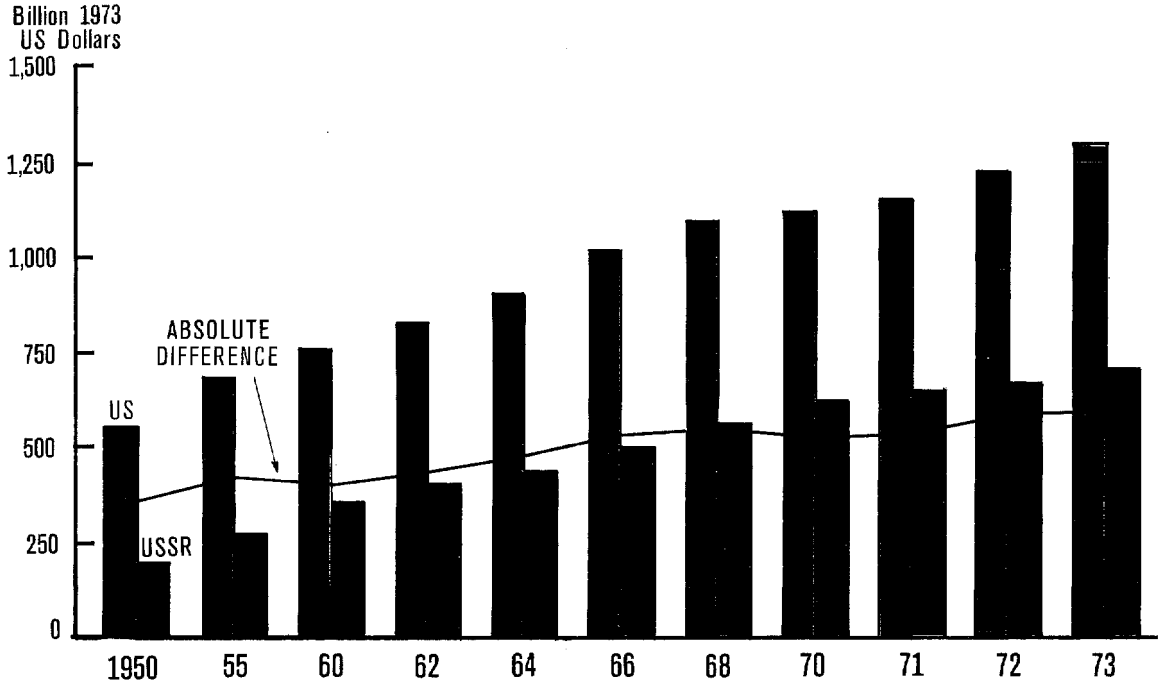
Most of these problems seem rooted in the Soviet economic system itself, which is too centralized and clumsy for the increasingly complex economy. Central planning, for example, becomes more difficult as the number of links between producers, consumers, and suppliers multiplies.

The Soviet incentive system is also ill-equipped to deal with today's problems. Although it has been effective in maximizing physical output, it has created bottlenecks and idle capacity, sacrificed product quality, and discouraged innovation in production and management techniques.

Thus far the leadership has been unwilling to act on the fact that fundamental change in the economic system is needed. It has taken a few timid steps to reform the R&D sector and to reorganize industry. At a Central Committee meeting last December Brezhnev paid lip service to the need for improved economic management and planning but offered no specific proposals. He realizes that a truly effective reform would decentralize decision-making and thereby diminish Party control over the economy. In lieu of a direct attack on the problem, the leadership apparently believes that it can take a shortcut to technological progress and accelerated growth by importing Western machinery and technology. Some Soviet economists believe that, if they set up a vast computer network, they can exert efficient central control over the rapidly expanding number of price and output decisions. Soviet experience with the computer to date shows these economists are almost certainly wrong.

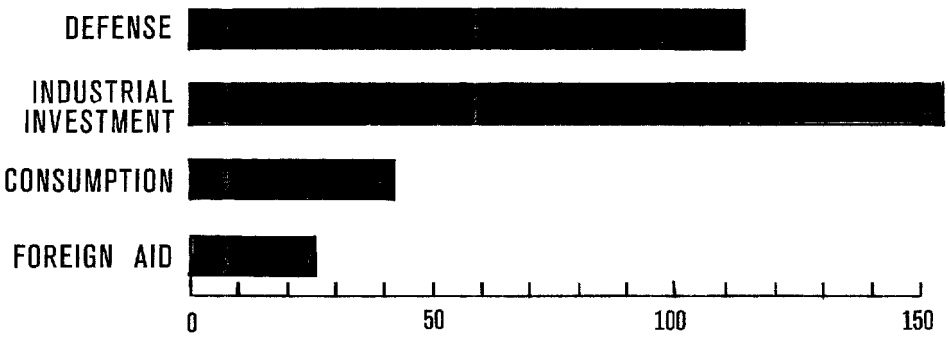
Key Measures of the Soviet Economy

US-USSR: GNP



US-USSR: Resource Allocation, 1973

USSR as a percent of US



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6	DDA			16	Ex/Sec		
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This is really an exceptionally good job — Many thanks

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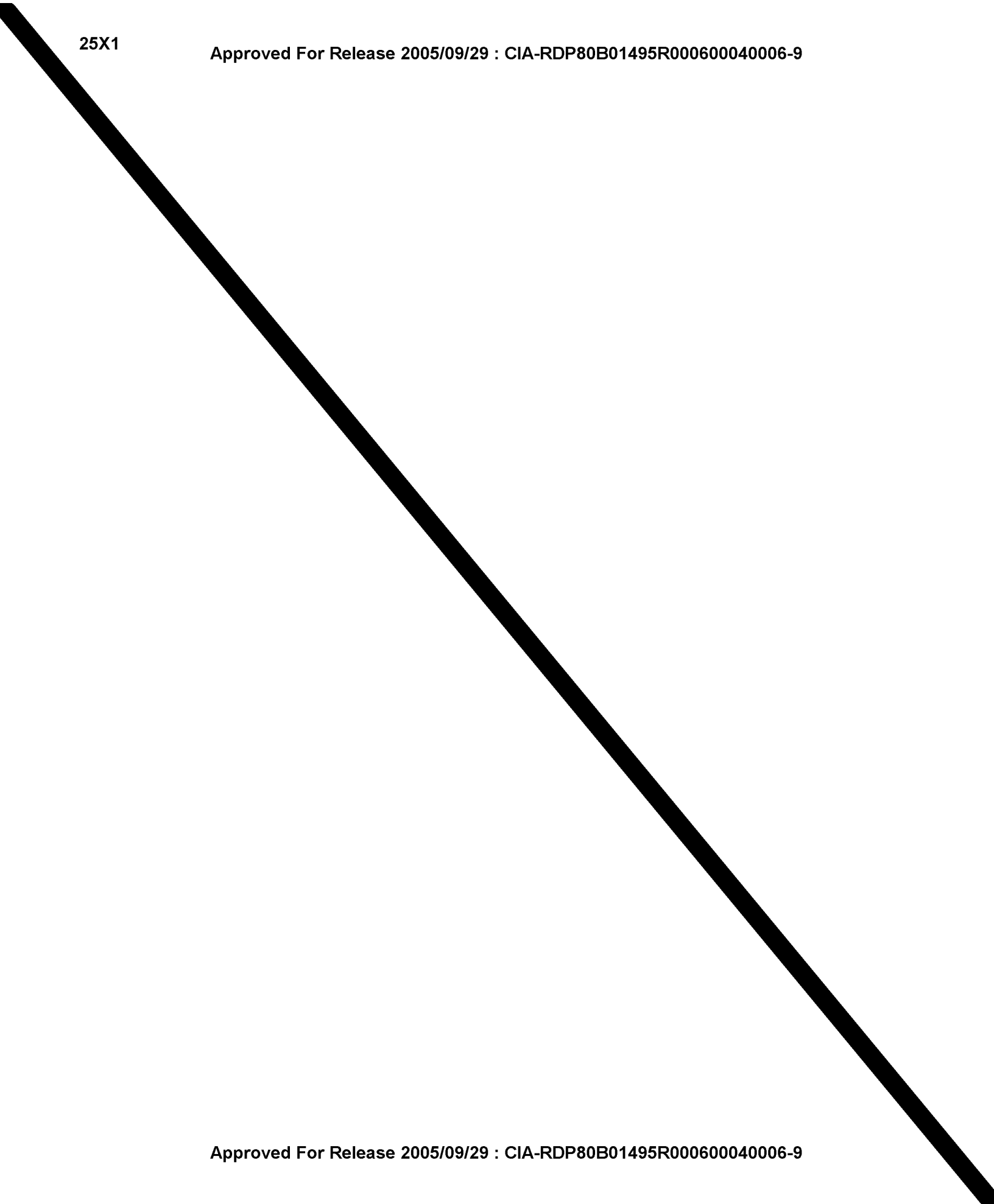

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